



Quarterly Financial Report

Second Quarter of 2010-11

February 22, 2011

The financial information in this report reflects the City's overall financial position for the fiscal year through December 2010.

EXECUTIVE SUMMARY

Amendments. The General Fund budget presented in the second quarter report is unchanged from the budget that was presented in the first quarter report. There were no General Fund budget amendments adopted in the second quarter. A summary of the budget changes since July 1 is presented below.

Adopted Budget	\$ 91,635,962
Health Care Technical Adjustment	(3,553,000)
Budget Amendments:	
City Hall Repairs*	450,000
Annexation Revenue & Expenses	<u>166,757</u>
12/31/2010 Budget	<u>\$ 88,699,719</u>

* Fund balance appropriation

Revenues. Through December 31, 2010, the City has collected \$50,589,353 in General Fund revenue, which represents approximately 57.3% of the total General Fund revenue budget. Staff received property tax data from Buncombe County in January which showed that the FY 2010-11 tax base grew by 0.7%, which is the slowest growth in more than ten years. As a result, staff has revised downward the property tax revenue estimate for the current year. Sales tax revenues are up 3.2% compared to the prior fiscal year and remain on track to meet budget. As noted in the first quarter report, the only major revenue variance to report is in the investment earnings category, where low interest rates will result in lower than anticipated revenues in this category. Overall, staff is currently projecting that ***total FY 2010-11 General Fund revenue will come in under budget by \$1.2 million.***

Expenditures. General Fund expenditures through December 31, 2010 total \$42,135,677 or 47.5% of the budget, which is typical for this point in the fiscal year. As noted in the 1st quarter report, staff has implemented several management strategies to curb expenditure growth during the current year in order to address the projected under performance in revenues. ***These savings, representing roughly 1% of the overall budget, are expected to come from a combination of strategies that have minimal impact on public services. These strategies include further selective hiring, line item reductions, deferring capital expenses where possible, and seeking opportunities to maximize efficiency in operations.***

Fund Balance. The City ended FY 2009-10 with available fund balance of \$12.3 million, which equated to 14.2% of FY 2009-10 expenditures. ***With implementation of the savings strategies mentioned above, FY 2010-11 expenditures are expected to roughly equal revenues, which means available fund balance will remain at \$12.3 million or 14.2% of estimated expenditures.***

GENERAL FUND

	Revised	12/31/2010	Year-End	Pos./(Neg.)
Revenues:	Budget	Actuals	Estimate	Bud. Variance
Property Taxes	46,220,370	31,525,373	46,120,370	(100,000)
Sales & Other Taxes	15,144,688	5,192,496	15,169,688	25,000
Intergovernmental	11,175,602	6,169,682	11,100,000	(75,602)
Sales & Services	5,387,771	2,658,748	5,287,771	(100,000)
Licenses & Permits	5,208,524	3,333,637	5,110,839	(97,685)
Investment Earnings	1,014,000	80,000	225,000	(789,000)
Miscellaneous	1,210,943	379,506	1,110,943	(100,000)
Charges to Other Funds	<u>2,887,821</u>	<u>1,249,911</u>	<u>2,887,821</u>	<u>0</u>
Total Revenue	<u>88,249,719</u>	<u>50,589,353</u>	<u>87,012,432</u>	<u>(1,237,287)</u>
Expenditures:				
Administrative Services	2,671,681	1,301,902	2,600,000	71,681
Legal Services	607,413	273,364	597,413	10,000
Finance	1,723,798	872,476	1,673,798	50,000
Human Resources	1,556,908	581,913	1,381,908	175,000
Information Tech. Srv	2,441,732	1,437,551	2,366,732	75,000
Nondepartmental	12,096,228	5,724,046	11,896,228	200,000
Economic Development	464,505	230,110	434,505	30,000
Fire	17,879,043	9,036,648	17,819,043	60,000
Police	20,200,804	9,721,523	19,900,804	300,000
Building Safety	3,676,929	1,624,819	3,526,929	150,000
Transportation	1,149,338	526,340	1,074,338	75,000
Public Works	12,964,355	5,742,783	12,734,355	230,000
Planning	1,948,173	876,907	1,898,173	50,000
Parks & Recreation	<u>9,318,812</u>	<u>4,185,295</u>	<u>9,118,812</u>	<u>200,000</u>
Total Expenditure	<u>88,699,719</u>	<u>42,135,677</u>	<u>87,023,038</u>	<u>1,676,681</u>
Rev. (Under) Exp.	<u>(450,000)</u>	<u>8,453,676</u>	<u>(10,606)</u>	
Other Financing Sources (Uses):				
Fund Bal. Change	<u>(450,000)</u>		<u>(10,606)</u>	
Beginning Fund Balance	<u>12,319,000</u>		<u>12,319,000</u>	
Ending Fund Balance	<u>11,869,000</u>		<u>12,308,394</u>	
Fund Balance Percentage	<u>13.4%</u>		<u>14.2%</u>	

REVENUES:

At this point in the fiscal year, staff is projecting FY 2010-11 General Fund revenue will be \$87,012,432, which is \$1.2 million below the revised budget. Major revenues to report on for the 2nd quarter include:

Property taxes. Staff has received the official 2010-11 assessed valuation data from Buncombe County, and it shows that the City's tax base grew by 0.7%. This growth rate, which was slightly less than budget estimates, is the slowest tax base growth in at least ten years and reflects the lingering effects of the economic recession. The real property component of the tax base, which includes residential and commercial properties, grew by only 1.4% due to the continuing slowdown in the construction industry. The motor vehicle component of the tax base declined by 7.8%. Motor vehicles are re-valued annually, and with many consumers delaying the purchase of new automobiles during the recession, the value of the motor vehicle tax base has declined in each of the last two fiscal years. Overall, staff now expects property tax revenue to come in under budget by \$100,000.

Sales taxes. To date, the City has received six months of sales tax revenue in FY 2010-11, and revenue is up 3.2% compared to the same time period last year. For the remainder of the current fiscal year, the N.C. League of Municipalities is projecting that sales tax revenue will grow at a rate of only 1% to 2%. Based on these projections, staff is optimistic that budget estimates for the current year will be reached.

Investment Earnings. As staff noted in the first quarter report, revenue from investment earnings is down substantially from prior years due to the historically low interest rates currently available in the market. In FY 2009-10, investment earnings in the General Fund were approximately \$263,000, which was down from just over \$1.0 million in the prior year. With no major changes in interest rates expected in this fiscal year, staff is estimating that investment earnings revenue will remain low. This revenue category is expected to come in approximately \$789,000 below original estimates.

Licenses & Permits/Sales & Services. Total building permits were up slightly in the first six months of FY 2010-11 compared to FY 2009-10; however, the value of building permits was down by approximately 35% primarily due to a decline in commercial permit value. Revenue received from building permits and inspections is at 46% of budget through the first six months of FY 2010-11. Since staff budgeted conservatively in this area, and other revenues such as business privilege licenses still appear to be on track to meet budget, these revenues are expected to come in only slightly below budget.

EXPENDITURES:

Salaries. As of the end of December, there have been 12.7 payroll cycles charged against the FY 2010-11 budget, which represents 48.7% of the total payroll cycles that will occur during this fiscal year. Actual salary expenses were at 48.5% of budget, which indicates that *departments remain on track to achieve the \$878,000 in vacancy savings that were programmed into the FY 2010-11 adopted budget.*

Health Care. *Through the first six months of the fiscal year, health care expenses, including medical, prescriptions, and dental claims, are running 2.5% below where they were at this point in the previous fiscal year.* The cost containment strategies that were implemented as a part of the FY 2010-11 budget, including the dependant audit and other plan changes, appear to be achieving their savings target. Staff will continue to closely monitor the Health Care Program and report back to Council during the 3rd Quarter Report.

Fuel. Fuel costs continue to run higher than in the prior fiscal year. The average price of B5 biodiesel fuel was 44 cents per gallon higher during the first half of this fiscal year compared to FY 2009-10, and the cost of E10 fuel was 31 cents higher. Staff will monitor fleet maintenance budget throughout the year to ensure that these higher fuel prices do not cause departments' to exceed their budgets.

Additional Saving Strategies. As noted earlier in the report, in order to conservatively manage expenditures to address the projected under performance in revenues, departments are continuing to identify additional savings in the current year budget. These savings will come from a combination of strategies that have minimal impacts on city services including selective hiring, line item reductions in areas such as training and travel and professional services, and delaying capital projects.

FUND BALANCE ANALYSIS:

The City ended FY 2009-10 with (adjusted) available fund balance of \$12.3 million, which equated to 14.2% of FY 2009-10 expenditures. Since the start of the current fiscal year, Council has approved the use of \$450,000 in fund balance. However, with implementation of the savings strategies mentioned above, FY 2010-11 expenditures are expected to roughly equal revenues, which means available fund balance will remain at \$12.3 million or 14.2% of estimated expenditures.

ENTERPRISE FUNDS

The following information summarizes year-to-date and year-end projections for the City's eight enterprise funds.

Water Fund

	Adopted Budget	12/31/2010 Actuals	Year-End Estimate	Pos./(Neg.) Bud. Variance
Revenue	33,011,200	15,805,229	32,926,332	(84,868)
Expenditure	33,011,200	15,217,286	32,838,949	172,251
Rev. Over/(Under) Exp.	0	587,943	87,383	--

Water operating revenues are projected to be \$84,868 under budget due primarily to: (1) a decrease in utility charges from customers conserving water; and (2) a continued decrease in development across Buncombe County resulting in decreases for tap/connection fees associated with connections to the water system. Water expenditures are now projected to be \$172,251 under budget due primarily to holding positions vacant during the first half of FY 2010-11, and a careful review of spending.

Civic Center Fund

	Adopted Budget	12/31/2010 Actuals	Year-End Estimate	Pos./ (Neg.) Bud. Variance
Operating Revenue*	1,721,950	918,573	1,650,000	(71,950)
Expenditure	2,114,544	1,026,124	2,000,000	114,544
Rev. Over/(Under) Exp.	(392,594)	(107,551)	(350,000)	--

* Represents operating revenue before general fund subsidy

The second quarter continued an active period for the venue. Highlights included hosting headline events in both the arena and TWA for the first Moog Fest, Elton John, Warren Haynes, and two-nights of The Avett Brothers; all of these events were sold out events. Revenues and expenditures are as anticipated for the second quarter, and projections for the remainder of the budget year appears to be on track, based on current advanced bookings of shows.

Parking Fund

	Revised Budget	12/31/2010 Actuals	Year-End Estimate	Pos./ (Neg.) Bud. Variance
Operating Revenue**	2,911,500	1,596,402	2,900,000	(11,500)
Expenditure	3,516,500	1,446,299	2,700,000	816,500
Rev. Over/(Under) Exp.	(605,000)	150,104	200,000	--

** The budget represents operating revenue less fund balance appropriation

In November, Council approved a \$605,000 appropriation from Parking fund balance to purchase a property on Eagle Street that was surrounded on all sides by other city-owned property. The revised budget presented above reflects this fund balance appropriation. Parking revenues are expected to end the year very close to budget projections. Most categories of parking revenues are up year-to-date compared to the previous fiscal year. Even monthly parking sales, which had been negatively impacted by the recession, are starting to move upward. While the first two quarters have been strong, we expect revenues to slow in the third quarter due to severe weather and a seasonal slowing of business. Expenditures are expected to come in well under budget primarily due the fact that little debt service money will be spent this fiscal year on the 51 Biltmore Avenue project.

Transit Fund

	Adopted Budget	12/31/2010 Actuals	Year-End Estimate	Pos./ (Neg.) Bud. Variance
Revenue	5,736,596	1,263,792	5,800,000	63,404
Expenditure	5,736,596	2,383,857	5,700,000	36,596
Rev. Over/(Under) Exp.	0	(1,120,065)	100,000	--

Ridership is down 7% compared to the first six months of FY 2009-10. Ridership trends will continue to be monitored to determine if there will be an impact on revenue. The current fiscal year expense budget has used 42% of the available budget. This is positive and will help the fund should fuel costs increase above original budget estimates. Staff expects maintenance costs to decrease with the arrival of the 5 new hybrids.

Golf Fund

	Adopted Budget	12/31/2010 Actuals	Year-End Estimate	Pos./ (Neg.) Bud. Variance
Revenue	920,000	376,850	750,000	(170,000)
Expenditure	920,000	430,734	875,000	45,000
Rev. Over/(Under) Exp.	0	(53,884)	(125,000)	--

Revenue for the second quarter was recorded at 41%, compared to last year at 36%. The golf course was closed due to inclement weather for 23 of the 92 days in the second quarter, as compared with only 2 days closed for the 92 days in the first quarter. Winter weather conditions, a weak economy and local courses offering specials have all negatively impacted revenue potential at the course through the second quarter. The golf course continues to offer golf specials, manage course fees to enhance revenue, and to reduce year-end expenditures.

Stormwater Fund

	Revised Budget	12/31/2010 Actuals	Year-End Estimate	Pos./ (Neg.) Bud. Variance
Operating Revenue**	3,095,218	1,199,337	3,100,000	4,782
Expenditure	3,455,218	1,301,267	3,000,000	455,218
Rev. Over/(Under) Exp.	(360,000)	(101,929)	100,000	--

** Represents operating revenue less fund balance appropriation

The billing cycle for single family residential properties is continuing so revenues will continue to increase in the coming months. In September, Council approved a \$360,000 appropriation from Stormwater Fund balance for the Old Toll retaining wall project, a critical infrastructure project. This project is currently in the construction phase with anticipating completion this summer. Operationally, staff continues the Swannanoa Flood Risk Management Project, which will identify flood reduction projects within the Swannanoa Watershed. The stormwater construction crew installed a new stormwater system on Bassett Road and replaced an existing stormwater system on Evelyn Place. The construction crew also replaced 477 feet of deteriorated storm drainage at Warwick Place, Battery Park Alley, Tremont Road, Hazel Mill Road and Brookwood Road. The Stormwater maintenance crew completed 27 work orders in this time period: 16 replace catch basin lid and catch basin repair work orders, 1 sink-hole repair work orders and 5 ditching work orders. The stormwater maintenance crews also swept 394 miles of roadways and cleaned 1117 catch basins which removed 164 tons of material and prevented this material from entering our streams.

Street Cut Utility Fund

	Adopted Budget	12/31/2010 Actuals	Year End Estimate	Pos. (Neg.) Budget Variance
Revenue	1,578,280	0	987,000	(591,280)
Expenditure	1,578,280	526,984	987,000	591,280
Rev. Over/(Under) Exp.	0	(526,984)	0	--

The City's street cut repair operations were consolidated on July 1, 2010 and set up as a new Enterprise Fund. Crews in this fund patched 135 utility cuts in the second quarter. Beginning January 1, 2010, crews took on the responsibility for patching utility cuts for PSNC. The estimated year-end revenues and expenses are lower than budget due to the fact that work for MSD will not start until July 1, 2011.

Festivals Fund

	Adopted Budget	12/31/2010 Actuals	Year-End Estimate	Pos./(Neg.) Bud. Variance
Operating Revenue*	547,242	427,261	543,274	(3,968)
Expenditure	709,894	573,163	705,000	4,894
Rev. Over/(Under) Exp.	(162,652)	(145,902)	(161,726)	--

* Represents operating revenue before general fund subsidy

Actuals through 12/31/2010 include the costs of the July 4th celebrations and Bele Chere. As with every year, expenditures are substantial at this point in the fiscal year due to Bele Chere, which represents nearly seventy percent of the overall Festival Fund budget. Revenues in the Festivals Fund will see a slow increase in the third quarter and end the final quarter with a large increase with the receipt of vendor and sponsorship revenue for the 2011 Bele Chere and 4th of July event. Based on a management recommendation from the recently completed FY 2009-2010 audit, staff will recommend moving the Festivals Fund into the General Fund in FY 2011-12. Because the Festivals Fund relies heavily on General Fund support and has no assets or cash, it is more appropriately recorded in the General Fund. Despite this change, the City will still be able to account for financial activity related to Festivals separately and will continue to report on it financial status as part of each quarterly financial report.

CAPITAL PROJECT UPDATE

As staff reported in the 1st quarter financial update, there is approximately \$483,000 available in the capital reserve account. Staff is recommending that the money remaining in the capital reserve be allocated for the FY 2011-12 CIP during the upcoming budget process. The remainder of this section provides an update on the status of some of the City's active major capital projects.

Enterprise Software Upgrade (H.T.E. Replacement or BTIP)

Budget	Expenditures & Encumbrances	Avail. Budget
2,000,000	1,958,098	41,902

Phase II of the BTIP project was completed on January 2, 2011, on time and within budget. The transition from the mainframe based human resources and payroll information systems to a modern system enables incremental innovation opportunities for the City to achieve Council's fiscal responsibility strategic plan goals, and better enable the City to measure meaningful performance measures for programs and services. Paperless payroll has been implemented. Utility billing is scheduled to go live on July 1, 2011. The project as a whole also remains within budget.

Livingston Street Splash Pad

Budget	Expenditures & Encumbrances	Avail. Budget
200,000	84,829	115,171

Construction drawings are virtually complete with a phased implementation planned for this project.

Livingston Street Center

Budget	Expenditures & Encumbrances	Avail. Budget
2,430,000	2,391,904	38,096

The construction of the first phase of the Livingston Street Recreation Center officially commenced on April 13, 2010. The facility is dried in and much of the site development and the façade is complete. The project is scheduled for completion in March 2011 and an official grand opening is planned for October 2011.

Reed Creek Greenway Phase II

Budget	Expenditures & Encumbrances	Avail. Budget
783,000	118,709	664,291

Due to delays in the NCDOT approval process, code issues and a complicated bid process, the construction contract for this project will be awarded in February. Construction is anticipated to be complete in the fall of 2011.

Recreation Center Maintenance & Roof Repairs

Budget	Expenditures & Encumbrances	Avail. Budget
250,000	227,930	22,070

Staff installed drop ceiling in Community Room at Shiloh Recreation Center. Roof repairs have been completed for the Burton Street and Stephens Lee Centers, Magnolia Park, and the park maintenance building.

Park Facilities Maintenance

Budget	Expenditures & Encumbrances	Avail. Budget
236,761	134,457	102,304

The following projects were completed: 1) tennis court resurfacing at Weaver, Montford and Malvern Hills Park; 2) basketball court resurfacing and goal replacement at Weaver and Montford Park and court resurfacing at Carrier Park; 3) roller hockey rink resurfacing at Carrier Park; 4) security fencing at Park Maintenance; 5) replacement of 13 water valves at Recreation park pool; 6) replace canopy at Valley Springs restroom building; 7) demolish structure at Royal Pines Park; 8) install backflow at WNC Nature Center; 9) install hot water heater at Harvest House; 10) install new hand dryers at WNC Nature Center; 11) demolish unsafe tennis courts at Livingston Street Park; 12) install new lights and ceiling tiles in Park Maintenance office.

Nature Center Improvements

Budget	Expenditures & Encumbrances	Avail. Budget
100,000	99,630	370

Work is currently being done on upgrades to the coyote and cougar exhibits.

Sidewalks – East (Fee-In-Lieu)

Budget	Expenditures & Encumbrances	Avail. Budget
252,000	174,444	77,556

Sidewalk installation along US 70 (Tunnel Road) from Crockett Avenue to Avon Road (3,000+ linear feet) is currently under construction, and it is anticipated that all work will be completed by July 1, 2011. Depending on weather conditions, it is anticipated that sidewalk construction between Avon Road and Arco Road will be completed during the winter months.

Sidewalks – West (Fee-In-Lieu)

Budget	Expenditures & Encumbrances	Avail. Budget
211,000	101,845	109,155

NC 191 (Brevard Road) from I-26 to I-40 has been identified as a potential project. The City would reimburse NCDOT 40% of the cost of a sidewalk along the west side of an ongoing widening project. A second possible project for the remaining funds will likely be along US 19-23 (Patton Avenue) from Wilburn Road to NC 63 (Leicester Hwy).

Traffic Safety Projects

Budget	Expenditures & Encumbrances	Avail. Budget
170,000	66,953	103,047

Partnering with NCDOT to install signals and crosswalks at four signalized intersections: McDowell St and Choctaw, Haywood Rd. and Louisiana Ave., Biltmore Ave. and S. Charlotte St., and Clingman Ave. and Hilliard St.

General Sidewalk Maintenance

Budget	Expenditures & Encumbrances	Avail. Budget
200,000	89,669	110,331

During the second quarter of this fiscal year, the sidewalk crew completed the Madeline Avenue and College Place projects and worked on the Michigan Avenue ARRA project.

General Street Maintenance

Budget	Expenditures & Encumbrances	Avail. Budget
752,300	680,084	72,216

The following streets were resurfaced in the second quarter: Windsor Drive, New Castle Court, and Saint Charles Court. The remainder of the quarter crews worked on bridges.

Patton Avenue Sidewalk

Budget	Expenditures & Encumbrances	Avail. Budget
450,000	315,000	135,000

This project is currently under construction and should be complete in 1-2 weeks. The initial budget for the project was approved at \$450,000, with \$300,000 in funding from the City and \$150,000 from NCDOT. Final costs for the project will likely come in under the budget. Once the project is complete and final reimbursement has been received from NCDOT, savings in the City funding will be transferred to capital reserves.

East Oakview Bridge

Budget	Expenditures & Encumbrances	Avail. Budget
1,363,000	340,362	1,022,638

NCDOT currently is doing final review on the updated Plans and Specs. Once completed, Engineering Services staff will schedule project letting.

Clingman Avenue Streetscape

Budget	Expenditures & Encumbrances	Avail. Budget
907,251	873,515	33,735

Utility poles have been relocated on the two lane section. Once weather permits, the contractor will start concrete and drainage work. Staff is monitoring this project budget due to a change in the scope of the project. A budget amendment may need to be brought before Council later in the fiscal year.

Deaerview Bridge

Budget	Expenditures & Encumbrances	Avail. Budget
300,000	0	300,000

Engineering Services staff is currently working with Norfolk-Southern and the contractor to obtain the required R/R right of entry documentation so that work may proceed. Work should begin within 3-4 weeks.

City Hall Repairs

Budget	Expenditures & Encumbrances	Avail. Budget
450,000	395,000	55,000

Construction drawings are complete, prototype repairs are scheduled for the third quarter, and testing prototype repairs and finalizing construction documents will be completed in the fourth quarter. It is anticipated that the remainder of the project will be budgeted in the FY 2011-12 capital improvement program, and the contract for construction will be awarded in the first quarter of FY 12.

Rankin & Wall Parking Deck Restoration

Budget	Expenditures & Encumbrances	Avail. Budget
1,032,000	456,643	575,357

The restoration work on the garages is complete. The project came in significantly under budget. The savings will remain in the Parking Fund reserves.

1st 5 Hybrid Buses

Budget	Expenditures & Encumbrances	Avail. Budget
2,625,000	2,625,000	0

The five hybrid buses have been delivered and are being prepared for service.

INVESTMENT REPORT

The total investments for the City of Asheville as of December 31, 2010 were \$88,720,282. These investments represent cash and cash equivalents and do not reflect budgeted contractual commitments against these funds. These investments comply with North Carolina General Statutes, the City's investment policies and the City's bond restrictions. The average rate of return for all investments is 0.60%. Shown below are the total investments as of December 31, 2010, reduced by contractual commitments and the funds that are restricted by bond order.

Total Cash & Investments as of 12/31/10		\$88,720,282
Less:		
Budgeted Commitments:		
Outstanding Encumbrances		(23,058,810)
Bond Restricted Funds:		
Bond Service (Funds held by trustee):		
Funds in Principal & Interest Accounts	(1,937)	
Bond Proceeds to Be Drawn Down	<u>(1,096,777)</u>	
		<u>(24,157,524)</u>
Net Amount		\$64,562,758

Attached to this report are a graph and a table that provide greater detail on the allocation of funds within the City's investment portfolio.

SUMMARY

For more information. This summary is based on detailed information produced by the City's financial management system. If you would like additional information, or have any questions about the report, please call the Budget Office at 259-5635.
